

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 EURE-00 L-03 H-02 DODE-00 PA-02 PRS-01 PM-03

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P R 311530Z JUL 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2381

INFO US MISSION EC RUSSELS 6372

AMCONGEN MILAN

AMCONGEN NAPLES

USMISSION OECD PARIS

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PASS TREASURY WASH DC

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: 1976 ITALIAN BUDGET SENT TO PARLIAMENT

REF: ROME A-715 DATED NOVEMBER 22, 1974

1. /SUMMARY/. ON JULY 29, GOI COUNCIL OF MINISTERS APPROVED AND FORWARDED TO PARLIAMENT 1976 BUDGET. BUDGET SHOWS RECORD INCREASE IN GOVERNMENT DEFICIT, AS GOVERNMENT RECEIPTS ARE PROJECTED TO RISE BY 14.5 PERCENT OVER 1975 AND GOVERNMENT EXPENDITURES ARE PROJECTED TO RISE BY 26.0 PERCENT OVER 1975. INCREASE FOR CAPITAL SPENDING (47.3 PERCENT) IS HIGHER THAN FOR CURRENT XPENDITURES (24.9 PERCENT). THUS, CENTRAL GOVERNMENT BUDGET DEFICIT WOULD BE INCREASED BY 70 PERCENT OVER 1975. INCLUDING DEFICITS OF AUTONOMOUS

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AGENCIES, TOTAL 1976 DEFICIT WOULD BE INCREASED BY 60

PERCENT FROM 1975. END SUMMARY.

2. SUMMARY LIRA FIGURES FOR 1976 BUDGET AND COMPARABLE
1975 DATA FOLLOW. (DOLLAR EQUIVALENTS FOR SOME TOTALS
SHOWN IN PARENTHESIS HAVE BEEN CALCULATED FOR BOTH YEARS
AT RATE OF EXCHANGE OF 650 LIRE PER DOLLAR.) DATA BREAKDOWN
BY FUNCTION AND MINISTRY ARE NOT YET AVAILABLE.
EMBASSY WILL REPORT THIS INFORMATION AT LATER DATE.
AS IN PAST, PARLIAMENT WILL NOT BEGIN BUDGET DEBATE UNTIL
FALL, AND FINAL APPROVAL IS NOT EXPECTED UNTIL SPRING OF 1976.

TABLE

BILLIONS OF LIRE
(BILLIONS OF DOLLARS)

1975 1976 PERCENT CHNG.

RECEIPTS

TAXES AND NON-TAX	22,101.8	25,947.7	PLUS	17.4
SALE OF PROP., RIMB. AMORT.	59.3	66.4	PLUS	12.0
RENEWAL TREAS. BONDS	1,035.0	537.0	MINUS	48.1
LOANS	5.0	5.0		

TOTAL RECEIPTS	23,201.1	26,556.1	PLUS	14.5
	(\$35.7)	(\$40.9)		

EXPENDITURES

CURRENT EXPEND.	23,313.0	29,100.4	PLUS	24.9
CAPITAL EXPEND.	4,155.8	6,119.8	PLUS	47.3
REPAYMENT OF DEBT	1,796.1	1,644.0	MINUS	8.5

TOTAL EXPENDITURES	29,264.9	36,874.2	PLUS	26.0
	(\$45.0)	(\$56.7)		

A. GOVERNMENT DEFICIT	6,063.8	10,318.1	PLUS	70.2
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(\$ 9.3) (\$15.9)

B. AUTONOMOUS AGENCIES'

DEFICIT (POST & RAILRDS)	1,109.0	1,197.5	PLUS	8.0
	(\$ 1.7)	(\$ 1.8)		

COMBINED DEFICIT (A&B)	7,172.8	11,515.6	PLUS	60.5
	(\$11.0)	(\$17.7)		

3. 1976 CURRENT BUDGET EXPENDITURES ARE PROJECTED AT 80 PERCENT OF TOTAL EXPENDITURES, SAME PERCENTAGE AS IN 1975. GOVERNMENT SAVINGS (TAX AND NON-TAX REVENUE LESS CURRENT EXPENDITURES) WILL BE LARGER NEGATIVE ITEM THAN LAST YEAR GOING FROM DEFICIT OF 1,211 BILLION LIRE IN 1975 TO DEFICIT OF 3,163 BILLION IN 1976. TOTAL GOVERNMENT BUDGET EXPENDITURES WOULD AMOUNT TO 36,874 BILLION LIRE (29,265 BILLION LIRE IN 1975). TAX AND NON-TAX REVENUES ARE EXPECTED TO RISE BY 17 PERCENT IN 1976 AND TOTAL GOVERNMENT RECEIPTS ARE ESTIMATED AT 26,556 BILLION LIRE. AFTER ACCOUNTING FOR DEFICITS OF AUTONOMOUS AGENCIES (STATE RAILWAYS 906 BILLION LIRE AND POST AND TELECOMMUNICATIONS 291 BILLION LIRE), TOTAL EXPENDITURES WOULD RISE TO 38,072 BILLION LIRE. THUS, RESULTING BUDGETARY DEFICIT WOULD BE 11,516 BILLION LIRE, REPRESENTING LARGE INCREASE OF 4,343 BILLION LIRE OVER CURRENT ESTIMATE OF 1975 DEFICIT OF 7,173 BILLION LIRE.

4. FOLLOWING COUNCIL OF MINISTERS APPROVAL OF 1976 BUDGET, TREASURY MINISTER COLOMBO IN UNUSUAL MOVE RELEASED TO PRESS AN "EXPLANATORY NOTE" WHICH WAS PREPARED BY MINISTRY OF TREASURY AND WHICH DESCRIBES AT SOME LENGTH DIFFICULT NATIONAL ECONOMIC CONTEXT IN WHICH BUDGET WAS PREPARED. COMMUNIQUE CITES UNCERTAIN REVENUE IMPACT OF 1973-74 TAX REFORM APPLICATION AND ADMINISTRATION AND NEGATIVE EFFECT OF ECONOMIC RECESSION ON TAX REVENUES EVEN THOUGH TAX REVENUES ARE EXPECTED TO INCREASE IN 1976. TREASURY MINISTRY NOTE ALSO EMPHASIZES IMPACT ON PUBLIC SPENDING IN 1976 OF LEGISLATIVE PROGRAMS APPROVED IN 1975 AND FACT THAT SIZEABLE INCREASE IN SUCH APPROPRIATIONS HAS RENDERED VIRTUALLY IMPOSSIBLE EARLIER ATTEMPTS BY GOI TO LIMIT OR AT LEAST CONTROL SUCH SPENDING.

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5. IN TERMS OF INCREASED PUBLIC SPENDING, TREASURY MINISTRY NOTE CITES FOLLOWING EXAMPLES OF LEGISLATIVE PROGRAMS APPROVED IN 1975 WITH FUNDS REQUIRED IN 1976 IN PARENS: (A) APPLICATION OF REVISED SLIDING SCALE....

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P R 311530Z JUL 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2382

INFO US MISSION EC RUSSELS 6373

AMCONGEN MILAN

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PASS TREASURY WASH DC

.....SCALE

WAGE ADJUSTMENT MECHANISM, TO PUBLIC SECTOR (1,000 BILLION LIRE); (B) HIRING OF NEW TEACHERS FOR SCHOOL SYSTEM (700 BILLION LIRE); (C) INCREASED OUTLAYS FOR PENSIONS AND RELATED BENEFITS (2,735 BILLION LIRE); (D) ALLOCATION OF FUNDS TO REGIONS AND TO LOCAL GOVERNMENTS FOR LOCAL FINANCING (336 BILLION LIRE); (E) INTEREST ON ISSUANCE OF TREASURY BILLS AND OTHER SECURITIES WITH WHICH TO COVER FINANCING NEEDS FROM FINANCIAL MARKET (INCREASE OF 1,500 BILLION LIRE).

6. MINISTRY OF TREASURY DESCRIBES ABOVE EXAMPLES OF PUBLIC SPENDING FOR CURRENT OPERATIONS IN 1976 AS "UNPRODUCTIVE" BUT POINTS OUT THAT GOI IS MOVING AHEAD WITH "PRODUCTIVE" INVESTMENTS WHICH IN 1976 ARE EXPECTED
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TO INCREASE BY ROUGHLY 2,000 BILLION LIRE OR 47 PERCENT, PRIMARILY IN AREAS OF HOUSING CONSTRUCTION, AGRICULTURE, AND FINANCIAL ASSISTANCE TO SMALL AND MEDIUM SIZED

FIRMS. TREASURY MINISTRY NOTES DANGER THAT CONTINUED INCREASES IN CURRENT SPENDING COMPARED WITH PRODUCTIVE INVESTMENTS WILL RELEGATE NATIONAL BUDGET TO STATUS OF ANNUAL STATEMENT OF CURRENT SPENDING RATHER THAN A TOOL FOR FOSTERING AND DEVELOPING PUBLIC INVESTMENTS. TREASURY NOTE ALSO CONCLUDES THAT LEVEL OF PUBLIC INDEBTEDNESS FORESEEN UNDER 1976 BUDGET IS MAXIMUM CONSISTENT WITH NEED TO CONTAIN DOMESTIC REFLATIONARY EFFORTS WITHIN BALANCE OF PAYMENTS CONSTRAINT, SINCE FOREIGN ACCOUNTS HAVE ONLY RECENTLY RETURNED TO BALANCE. COLOMBO NOTED THAT OTHER COUNTRIES ARE USING NATIONAL BUDGET TO SPUR DOMESTIC PRODUCTIVE INVESTMENTS AND CONSUMPTION, BUT THAT SIZE OF BUDGETARY DEFICITS AS PERCENTAGE OF GNP IN SUCH COUNTRIES IS MUCH LESS THAN IN ITALY. BEARING IN MIND ANTICIPATED DEVELOPMENTS IN ITALY'S BALANCE OF PAYMENTS IN 1976, DOMESTIC BANKS AND SPECIAL CREDIT INSTITUTES WILL BE ABLE TO UNDERTAKE FINANCING IN 1976 IN AMOUNT OF 16,300 BILLION LIRE WITH ADDITIONAL 2,000 BILLION LIRE AVAILABLE FROM FINANCIAL MARKETS DIRECTLY TO PUBLIC AND PRIVATE FIRMS. WITH LIMIT ON DOMESTIC CREDIT OF 26,100 BILLION LIRE (27,900 BILLION LIRE IN 1975), COLOMBO NOTED THAT TREASURY CASH DEFICIT WILL BE KEPT WELL WITHIN 10,000 BILLION LIRE CEILING FOR 1976. VOLPE

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